UTILITY WORKERS UNION OF AMERICA

Affiliated with A.F.L.-C.I.O.

DONALD E. WIGHTMAN
PRESIDENT

JOHN M. WALSH, JR.
SECRETARY-TREASURER

JAMES P. KELLER
VICE PRESIDENT

815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006
(202) 347-8105
(202) 347-4872 FAX

May 27, 1997

The Honorable John D. Dingell, Ranking Member
Commerce Committee Democratic Office
U.S. House of Representatives
564 Ford House Office Building
Washington, DC 20515

Dear Congressman Dingell:

Thank you for the opportunity of allowing the Utility Workers Union of America, AFL-CIO ("UWUA") to provide the Commerce Committee with our views on deregulation of the electric utility industry generally and issues that have arisen thereunder.

The UWUA believes that it can provide the Committee with some unique information and a distinctive perspective on this issue. We represent 50,000 individuals who work in the electric, gas and water industries. Our members who work for electric utility companies do so in all aspects of the business, such as generating and nuclear facilities, transmission and distribution units, marketing and clerical functions. In many utilities, we represent all non-exempt employees company wide. We have had a unique opportunity to observe the ways in which the utility companies have prepared for deregulation and the effects that their actions have had so far on the consumers, workers and the system in general. Our perspective has also allowed us to formulate predictions as to the future effects that will be felt by all if deregulation of the electric utility industry goes forward.

I would like to first answer your specific questions and then provide further exposition on the general topic.

1. It is the position of the UWUA that not only does Congress not need to enact a new law "restructuring" the electric power industry but that it should not do so. At this time, there are a number of states that are contemplating restructuring of the industry within their particular jurisdictions. Although the Union generally prefers federal legislation over individual state enactments, we do not believe it advisable on this issue.

We expect that the legislature and regulatory commissions in each state are more familiar with the industry within their state as well as the needs and concerns of consumers and workers. It is more likely that the state authorities will be able to be responsive to these issues since they are so individualized.

As state legislatures are often more able to address localized issues of individual constituents, there is a greater likelihood that state enactments will go further in protecting consumers than federal legislation. The possibility that the mega-players in this debate will have a greater influence over federal legislation than in a particular state looms large. In sum, we believe that state legislation can be more responsive to consumers than in the federal forum.

Further, there is no need to enact federal legislation to require "restructuring" in those states in which the legislatures have already realized that deregulation of the industry is not a benefit to the citizens of that state. The Federal Government should not require states to restructure the electric power industry when they have no independent interest in so doing.

Finally, we respectfully submit that the restructuring of other industries, such as airlines, trucking, banking and telecommunications, based on federal law, has not been particularly consumer friendly. There is no reason to believe that federal deregulation of the electric power industry would be any more successful.

2. The UWUA asserts that state activity on restructuring is having a negative impact on consumers in many regards. They are as follows:

a. SYSTEM RELIABILITY. There is considerable cause for alarm that the reliability of our electric power systems will be seriously undermined by deregulation. The reasons for this are severalfold. First, utilities will no longer be vertically integrated and those that remain as transmission and distribution companies will have to depend on separate companies for power for their customers. Their ability to guarantee sufficient supply to their customers will therefore be compromised.

Second, the generating companies will sell their power to those who will generate the highest profit. Since retail consumers and small businesses are unlikely to have sufficient clout to really affect the market, they may well experience energy shortages and therefore have brownouts and even blackouts.

Finally, when the transmission and distribution companies are required to go to performance based rate making, the economic pressure will be so great that service is destined to decrease to unacceptable levels. Already there are issues with too few employees to provide effective service, insufficient preventive maintenance, too little on hand stock, a greater delay in service restoration after storms and outages and a general decline in the service provided to customers.

b. HIGHER PRICES. There is no validity to the propaganda of the proponents of deregulation that rates will be universally lower. In their more candid moments, even the supporters of deregulation acknowledge that small businesses and residential rate payers will not see any decrease in their rates. To the contrary, they will probably see an increase as the new suppliers need to subsidize the reduced rates that will be provided to big businesses.

   "So when you hear promises that competition will save everyone between 15 percent and 43 percent on their electric bills, beware of the hype. Enron's commercial, for example, neglects to mention that over half of the Petersborough residents' electric bill savings were due to a state-mandated subsidy designed to ensure that people would participate in the pilot. Much of the remaining savings were due to marketers shaving profit margins extra-thin in order to establish their credibility in the market." (Washington Post, April 6, 1997)

   In California, consumer advocates have shown that rates would actually drop more without deregulation than with it. "In California, when it became clear that people's rates would actually increase after competition began, the state issued billions of dollars in bonds to finance a 10 percent rate cut. Critics point out that rates would have dropped 12 percent without deregulation and taxpayers wouldn't have had to pay for it." (Washington Post, April 6, 1997)

c. NO RESERVE MARGIN. Under the current regulated system, most utilities keep a reserve margin of between 10-20%. This represents the capacity to go on line instantly in the event of peakload or an emergency. Under deregulation there will be no reserve margin as a company in the free market will be unlikely to want to maintain reserve capacity when there is no compensation for doing so.

d. LOSS OF JOBS. We expect that the number of primary jobs that will be lost are approximately 1/3 of the existing utility jobs. Since most of them are good paying, benefited, unionized positions, these employees contribute significantly to their communities, not only in terms of tax revenues but also in terms of charitable contributions and civic activities. In addition, many of the small business people who have structured their livelihood around the plants (coffee shops, dry cleaners, convenience stores, hardware stores, etc.) will be unable to sustain their businesses and they will close.

e. LOSS OF TAX REVENUES. Communities in which generating facilities are located will experience unacceptable loss of revenues. In most states, utilities are taxed at a higher rate than any new owner (non-utility) would be. In some communities, tax revenue from utilities constitutes over one-half of the municipality's budget. Clearly the loss of this revenue will be devastating.

f. PUBLIC OVERSIGHT OF A BASIC, ESSENTIAL SERVICE. By allowing utility companies to restructure and removing regulation, we, as a society, will have ceded any control over the distribution of electricity, an essential, basic service, to the "free market." There will no longer be a guarantee of universal access, obligatory service to the poor, elderly or disabled, or a value that electricity should not be controlled by a private company which has little commitment, if any, to the common good.

3. The UWUA shares the belief of many that the large industrial consumers will get all of the rate reductions while the small businesses and residential consumers will subsidize these breaks for big business. When there is no longer public control of electricity, those with the most clout, i.e. the large industrial users, will get the best deals. It appears that this is primarily true in those states that are rushing to deregulate the industry. In the states that are slowing down the process or not even engaging in the rush to restructure, there is a better balance.

However, the UWUA does not believe that federal legislation will curb these abuses of the system. Since the rush to deregulation is driven by the large industrial customers looking for massive rate reductions, there is no expectation that they will be any less forceful at the federal level. A federal mandate for retail competition will only fuel the frenzy for rapid, complete deregulation which will benefit the large customers.

One example is Enron Corporation which seems to be on a mission to control as much of the energy market as is possible and does not want to be stopped by any state or federal agency. Enron is a company known to have little community commitment, treats its employees unacceptably, and has little regard for consumers. As recently as April 7, 1997, the president of Enron, Jeffrey Skilling, stated in the *Journal of Commerce*, "You must cut costs ruthlessly by 50% or 60%. Depopulate. Get rid of people. They gum up the works."

At the same time, Enron has committed to spend $40 million in advertising in order to position itself as number one in this market.

One of the selling points advanced by proponents of deregulation is that big business needs rate reduction because high electric rates adversely affect their ability to do business. The UWUA asserts that this is a false premise on which to force change on an entire nation. There is little evidence that any rate reductions given to big business will trickle down to consumers, workers or communities. Further, in those locations where the cost of electricity is higher, so are many other cost factors, such as real estate, labor, transportation, etc. Even if companies feel the squeeze of high costs in a particular location, it is rarely, if ever, solely a function of higher electric costs.

Strong support for the UWUA's position that the large industrials, along with those who philosophically believe that competition and choice must be implemented, regardless of the cost to consumers, can be found in EEI studies, those completed by the Cambridge Energy Research Associates, Georgetown Consulting Group, Professor Frank Clemente of Penn State University and many others. We would be happy to provide you with copies of some of these studies if you would like us to do so.

4. Both S. 237 (Bumpers) and H.R. 655 (Schaeffer) begin with the assumption that comprehensive federally-mandated deregulation is appropriate and necessary. We disagree with this assumption and object to a federal manage for retail wheeling for all of the reasons already described herein.

We do not have a position on reform of section 210 of PURPA, except to note that there have been costly abuses and mistakes in implementation in some states. With respect to PUHCA repeal, this would open the floodgates to the already accelerating trend towards huge, competition-stifling mergers in the electric and gas industries, giving rise to a situation worse than that which produced PUHCA in the first place.

5. The UWUA supports stranded cost recovery for utility costs, as long as recovery for "stranded human investment" is included. If utility companies are going to be forced to restructure and divest their generating facilities, there needs to be some compensation for this very dramatic change in how the companies are set up. Even more compelling is the need to compensate individuals who have invested their lives in the utility companies, foregone other career and college options and had planned to stay with the utility until retirement. Most of these workers are very highly skilled in very specific ways that are not readily transferable to the open market.

Some have disputed the need for stranded cost recovery, noting that when other businesses close or change, neither the stockholders or employees are compensated so why should utility companies get special breaks. The compelling difference is that the utility companies are largely not engaging in restructuring on a voluntary basis. They have not chosen to take this course of action. It is being imposed on the companies and their employees by a societal mandate to change the way in which utilities have historically functioned. If the rules of the game are going to change, the players are entitled to compensation for their significant investment in having played by the previous rules.

It is simply unfair and unacceptable to leave individuals stranded without jobs, benefits or retirements when their losses are driven by state or federal legislation establishing a new, dramatic system.

6. The UWUA has not yet formulated a position on whether Congress should enact "reciprocity" requirements. It is difficult to do so until the whole picture at the state scene becomes clearer. The UWUA is initially concerned, however, that such a requirement would just encourage the big sellers of electricity to take over greater market share and then force states who do not believe it necessary to deregulate to do so. The temptation in those states would be too great, even though it would not necessarily benefit their citizens.

Unfortunately, the UWUA does not see any winners in this process except for the large industrial users and a handful of utility companies who will become bigger and richer. The people that we care about the most, workers, consumers, elderly, inner city and rural poor, women, particularly those who are struggling as heads of household, will have an additional worry in their lives—that electricity will no longer be a "given." Instead of it being accessible, affordable and available, it will be provided subject to the whims of large companies whose only interest is in profits.

The UWUA is actively opposing efforts to deregulate the industry. Our analyses above are based not only on published studies but also on our own sense of the industry from working in it for so many years. I would like to give you some examples of what we observe:

1. *There is little or no preventive maintenance on the transmission and distribution system in anticipation of deregulation and performance based rate making.*

   As utilities are being squeezed to be competitive and transition from a cost of service rate making to performance rate making system, our electric delivery system is suffering terribly. Preventive maintenance seems to be a program of the past. There is little pole replacement or tree trimming, both essential to keeping lines up. The initial fruits of this inaction has been power outages on the West Coast last summer and slow restoration of storm damage in New England, Northern California and other parts of the country this winter. We expect that these kinds of problems will occur in increasing numbers as companies maintain fewer employees and vehicles, less stock and use bandaids instead of permanent solutions when there are system problems.

Instead of maintaining regular inspection and repair programs, the utilities are just being reactive and even then putting on temporary repairs or ignoring the problem in the hope that it will disappear. While it may be months or years before we feel the full impact of this lack of attention to the system, it will happen.

2. *There are insufficient employees to manage the system efficiently and reliably.*

   Many utilities have allowed their workforces, either through attrition or layoff, to dwindle to unacceptably low levels. Utility workers are not fungible. Companies need crews experienced on their particular system. In New England this past winter, utility companies had unacceptably low response times after storms, leaving customers without power for up to a week. This resulted from too few crews familiar with the system and the need to bring in out of town crews who first needed to get there and then needed accompaniment by those in the system to even find the right poles before they could fix the problems.

3. *Regionalization of call centers and dispatch centers has already affected service and will increase in impact if deregulation is pursued.*

   As companies merge and consolidate many of their call and dispatch centers, customers will no longer receive localized service. Instead of calling a local center, whose employees are familiar with the system and its geography, a customer could call a center that is several states away. Likewise, crews may be dispatched from a center that is totally unfamiliar with the system it is operating. For example, in Pennsylvania and other areas, where a regional center was established, the following problems have been experienced: more than one crew has been sent to troubleshoot the same problem (not only is this inefficient, it could be dangerous for the crews), crews are sent to the wrong address because the call center is unfamiliar with the areas, the center becomes overwhelmed in storm situations, there are too few telephone lines open so customers cannot get through and there is no feedback to customers.

Why are we giving up our right as a society to control the delivery of electricity? Why are we allowing private, profit making companies to determine which segments of our society have first rights to electricity? If the system is not broken, what is the frenzy to fix it?

At this time the United States enjoys one of the most affordable, reliable electric systems in the world. It is not perfect. There are pockets of high prices, environmental concerns and unresponsive utilities. But largely we have a system that works and that allows people not to worry what will happen when they flick a switch. They know the heat and lights will go on and stay on.

It is our sad prediction that if the current proposals on deregulation are implemented, we will become a “second rate nation” in terms of our electric system. It will not be reliable. We will have brown outs and delayed restoration. The mega-utility companies will cherry-pick the best customers, leaving those who already have the most problems in society with yet another concern—obtaining and affording electricity.

We urge you to resist the efforts of many to deregulate the electric power industry so that the interest of some corporations, and their allies, to increase their profits will not become the driving force of our system at the expense of our citizens, workers and tax payers.

Thank you for your attention and interest in this issue. I am enclosing several items which I believe would be of interest to you, and would urge you to contact the UWUA if there is any other information or support we can provide.

Very truly yours,

Donald E. Wightman

Donald E. Wightman
National President

DEW:cd
opeiu#2 afl-cio

Enc.